

# THE LOCAL CHOICE

ANNUAL  
REPORT

Health Benefits Program  
*July 1, 2002 through June 30, 2003*



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## MESSAGE FROM THE DIRECTOR


Over the years, The Local Choice (TLC) health benefits program has demonstrated its commitment to providing cost effective and high quality health benefits plans to local governments and school jurisdictions. Fiscal year 2002 was no exception. Our self-insured plans provided more than \$92 million in plan benefits and we developed new plans and strategies to address the challenge of increasing health care costs yet meet the changing needs of our customers.

In an effort to meet the needs of TLC member groups, all but one active employee plan offered in 2002 provided dental benefits. The program offered a menu of five self-insured statewide plans and eight fully insured regional plans for active employees. Five possible options were available for Medicare eligible retirees.

During the last fiscal year, TLC increased member group participation and provided coverage for more than 37,000 local employees and family members. Because it was established by the General Assembly to provide health coverage for local jurisdictions, the TLC program can tailor benefits to meet the unique needs of our member groups. Choice, strength and stability remain our primary objectives while we continue to offer benefits comparable to those of Commonwealth of Virginia employees.



The success and effectiveness of the TLC program is due in large part to your commitment and support. We value your continued input as TLC completes 12 years of service to our local group members.



Mary Habel  
Director, State and Local  
Health Benefits Programs

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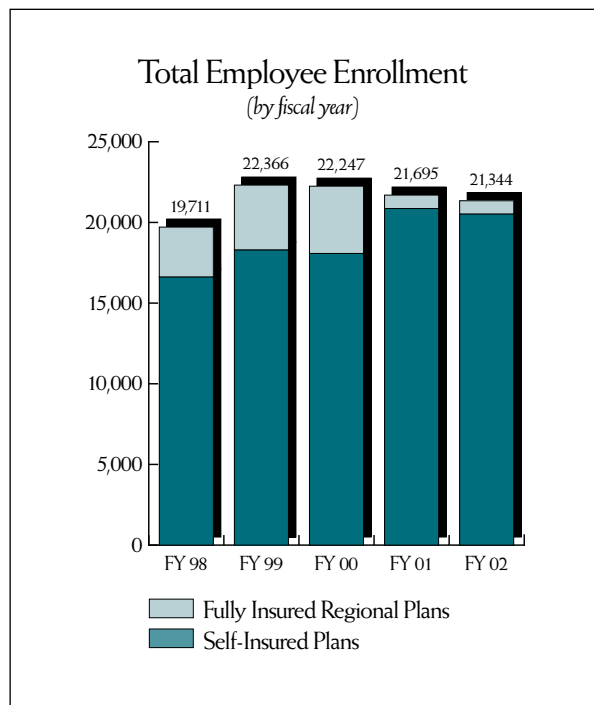
## ENROLLMENT RESULTS

In fiscal year 2002, The Local Choice total program membership increased by almost 5% from 209 member groups to 217. Total enrollment (employees and dependents) increased by 4% even with a small decline in the number of covered employees. The majority of groups continued to select Key Advantage with Expanded Benefits, but an increasing number are electing Cost Alliance with Dental as a cost efficient option for their employees. Membership in the 1-49 pool increased by 1%. The 50-299 pool grew by 3% and the 300+ self-insured classification had a 7% increase in enrollment.

The chart shows total enrollment over the past five years.

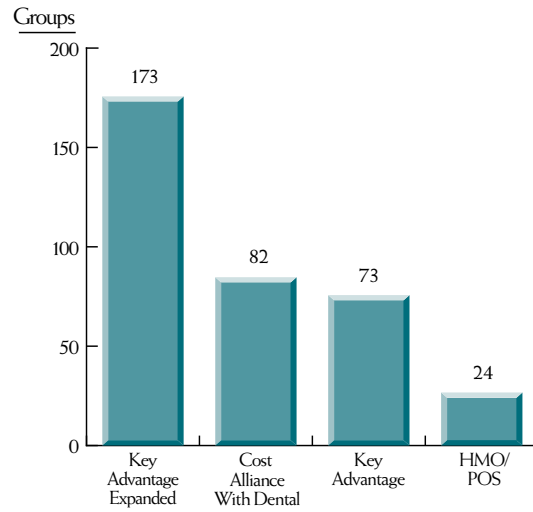
Low administrative costs, competitive trend estimates and value added benefits allow The Local Choice to compete effectively in today's changing marketplace. TLC provides financial stability through competitive rates, quality benefit plans, and superior customer service.

The charts on the next page show which plans are offered by member groups, and enrollment concentration by plan.



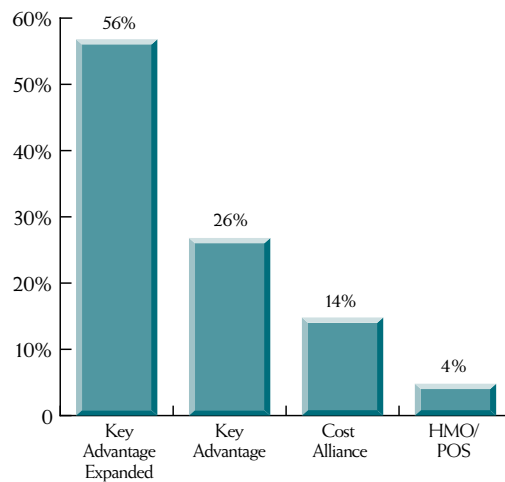
## ENROLLMENT BY BENEFIT PLAN

Benefit Plans Offered By Member Groups



Note: Some groups offer more than one benefit plan.

Enrollees By Benefit Plan



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## UTILIZATION RESULTS

While total 2002 self-funded paid claims were almost \$93 million, a 13% increase over FY 2001, the comparative utilization figures in this report exclude regional fully insured plans and claims for Medicare eligible members. This increase is due primarily to increased utilization of medical services and medical inflation. Costs increased in several treatment settings, led by outpatient facility and professional and outpatient prescription drugs. The average number of covered persons (employees plus covered dependents) increased 4% to 36,915.

The cost per covered person is a good indicator of the true year-to-year shift in program expense. The cost per person for all treatment settings increased 8% to \$2,464.

*Inpatient hospital expenses* accounted for 24% of this year's claims at \$22.24 million, and were 9% higher than the previous year. The admission rate increased 3% but the average length of stay decreased 1%, indicating earlier release to outpatient settings. The cost per admission increased 2%.

Overall *inpatient professional expenses* decreased slightly, while the cost per covered employee increased 10%.

*Outpatient facility expenses* accounted for 21% of this year's expense and increased by 15% from last year. The cost per case increased 10% while the cost per covered person rose 11%.

*Outpatient professional expenses* represented 23% of total expenses and increased by 15% over the same period last year. The cost per covered person rose 10% due to increases in service rate and in cost per service.



The cost of *outpatient prescription drugs* continued to rise. The cost per covered member was up 13%, with overall prescription drug claims cost increasing 18%. Over 406,000 claims were processed. More than 86% of Rx paid claims were for maintenance drugs prescribed for chronic disorders. Approximately 3.8%

of these claims were purchased through the Home Delivery Pharmacy program, up slightly from 3% last year. The average member purchased 11 prescriptions during the plan year.

*Outpatient dental costs* increased by 13% to over \$5.5 million. The cost per service went up 4%, and the cost per covered person increased 8% over last year. Ninety-nine percent of The Local Choice enrollees now have dental coverage.

The charts that follow show claims expense, utilization by place of treatment and an analysis of cost per covered person.

## SELF INSURED STATEWIDE PRODUCTS (NON-HMO)

### TOTAL CLAIMS EXPENSE – ALL GROUPS COMBINED

<i>Site Of Care</i>	<i>July 2000 to June 2001</i>	<i>July 2001 to June 2002</i>	<i>% Change</i>
Hospital Inpatient	\$20,368,844	\$22,243,066	9%
Hospital Outpatient	\$16,285,008	\$18,773,860	15%
Physician Inpatient	\$4,342,068	\$4,319,646	-1%
Outpatient Professional	\$18,482,424	\$21,261,526	15%
Dental	\$4,894,415	\$5,525,919	13%
Pharmacy Drug	\$16,010,091	\$18,845,782	18%
<b>Total</b>	<b>\$80,382,850</b>	<b>\$90,969,799</b>	<b>13%</b>
Expense Per Employee	\$4,093	\$4,435	8%
Expense Per Covered Person*	\$2,272	\$2,464	8%
Average Number Of Employees	19,637	20,513	4%
Average Number Of Covered Persons*	35,382	36,915	4%

*\*Covered persons = employee plus covered dependents*



## CLAIMS EXPENSE BY POOL

### TOTAL CLAIMS EXPENSE FOR THE 1-49 POOL

Overall expenses in the 1-49 pool increased by 9% to almost \$9.8 million. This is a substantial improvement over last fiscal year. Hospital Outpatient and Outpatient Professional charges comprised the largest percentage increases in the pool. The chart below provides key cost and utilization summaries for this market segment.

<i>Site Of Care</i>	<i>July 2000 to June 2001</i>	<i>July 2001 to June 2002</i>	<i>% Change</i>
Hospital Inpatient	\$2,774,335	\$2,955,972	7%
Hospital Outpatient	\$1,769,744	\$2,067,415	17%
Physician Inpatient	\$506,786	\$490,155	-3%
Outpatient Professional	\$1,784,818	\$2,051,619	15%
Dental	\$453,904	\$491,199	8%
Pharmacy Drug	\$1,638,906	\$1,710,463	4%
<b>Total</b>	<b>\$8,928,493</b>	<b>\$9,766,823</b>	<b>9%</b>
Expense Per Employee	\$4,523	\$4,792	6%
Expense Per Covered Person*	\$2,405	\$2,611	9%
Average Number Of Employees	1,974	2,038	3%
Average Number Of Covered Persons*	3,713	3,741	1%

\*Covered persons = employee plus covered dependents

## CLAIMS EXPENSE BY POOL

### TOTAL CLAIMS EXPENSE FOR THE 50-299 POOL

Annual expenses for this pool were more than \$41 million, a 14% increase over the previous year. Increases in Hospital Inpatient and Prescription Drug costs represented the fastest growing components of the pool.

<i>Site Of Care</i>	<i>July 2000 to June 2001</i>	<i>July 2001 to June 2002</i>	<i>% Change</i>
Hospital Inpatient	\$8,978,064	\$10,659,398	19%
Hospital Outpatient	\$7,745,758	\$8,740,401	13%
Physician Inpatient	\$1,940,197	\$1,973,287	2%
Outpatient Professional	\$8,452,998	\$9,415,613	11%
Dental	\$2,187,953	\$2,420,320	11%
Pharmacy Drug	\$6,967,844	\$8,234,645	18%
<b>Total</b>	<b>\$36,272,814</b>	<b>\$41,443,664</b>	<b>14%</b>
Expense Per Employee	\$3,908	\$4,377	12%
Expense Per Covered Person*	\$2,225	\$2,476	11%
Average Number Of Employees	9,282	9,468	2%
Average Number Of Covered Persons*	16,300	16,740	3%

\*Covered persons = employee plus covered dependents

## KEY INDICATORS – ALL GROUPS COMBINED

### UTILIZATION INDICATORS BY PLACE OF TREATMENT

(Excludes Mental Health And Substance Abuse)

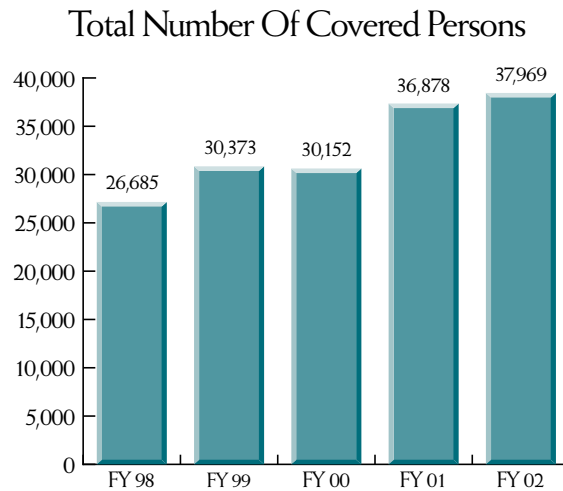
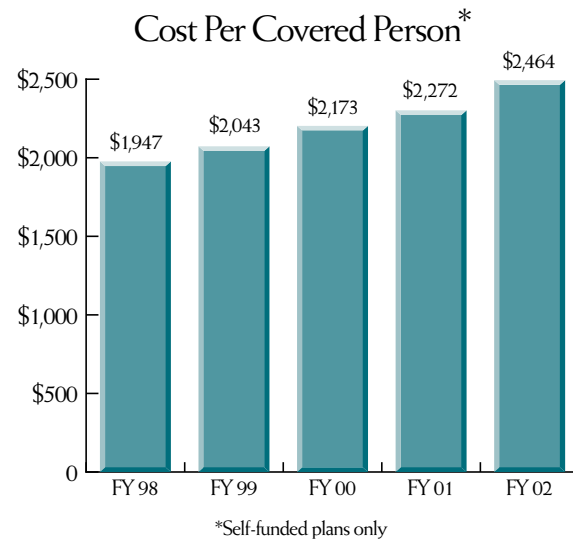
<i>Inpatient Hospital</i>	<i>July 2000 to June 2001</i>	<i>July 2001 to June 2002</i>	<i>% Change</i>
Admissions Per 1,000	77.60	79.70	3%
Days Per 1,000	275.30	278.80	1%
Average Length Of Stay	3.55	3.50	-1%
Professional Services Per 1,000	548.80	599.60	9%
<i>Outpatient Facility</i>			
Case Rate Per 1,000	973.70	980.90	1%
<i>Outpatient Professional</i>			
Professional Services Per 1,000	11,439.80	12,096.2	6%

### EXPENSE INDICATORS BY PLACE OF TREATMENT

(Excludes Mental Health And Substance Abuse)

<i>Inpatient Hospital Expenses</i>	<i>July 2000 to June 2001</i>	<i>July 2001 to June 2002</i>	<i>% Change</i>
Per Day	\$2,091	\$2,161	3%
Per Admission	\$7,420	\$7,561	2%
Per Professional Service	\$224	\$209	-7%
Per Member	\$699	\$720	3%
<i>Outpatient Facility</i>			
Per Case	\$473	\$518	10%
Per Member	\$460	\$509	11%
<i>Outpatient Professional</i>			
Per Professional Service	\$40	\$42	5%
Per Member	\$462	\$507	10%

## INDIVIDUAL ANALYSIS – ALL GROUPS COMBINED



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## FINANCIAL ANALYSIS

### FINANCIAL STRENGTH

The Local Choice continues to provide a strong financial base for its member groups. During FY 2002, the program continued to return excess reserves to member groups through its premium stabilization policies. The Cash Balance figure listed below represents actual cash on hand as of June 30, 2002.

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Cash Balance ( <i>June 30, 2002</i> )	\$7,873,564
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### SELF-INSURED STATEWIDE PRODUCTS

Annual premiums encompass all income, including interest earned on reserves. Annual expenses include the cost of claims and administration, promotional materials and the CommonHealth program. Participation in the statewide self-funded products continues to increase.

<i>Program Total</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>
Annual Premiums	\$72,667,829	\$87,951,613	\$99,903,248
Annual Expenses	\$76,384,494	\$94,696,816	\$102,176,549
Premiums Less Expenses	(\$3,716,665)	(\$6,745,203)	(\$2,273,301)
Operating Ratio	105.1%	107.7%	102.3%

### FULLY INSURED HEALTH MAINTENANCE ORGANIZATIONS (HMOS)

Fiscal year 2002 saw a decrease in the number of Regional Health plan options resulting in fewer employers and employees selecting Regional Health Plans (fully insured HMO/POS products). The annual premiums collected by the Regional Health Plans are shown below. Since these are fully insured products, their paid claims are not a part of the self-funded plan accounting and are not listed.

<i>Annual Premiums</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>
Schools	\$6,976,461	\$1,355,717	\$1,749,419
Government	\$9,897,059	\$1,938,033	\$1,165,881
TOTAL	\$16,873,520	\$3,293,750	\$2,915,300

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## VALUE ADDED BENEFITS FROM TLC

The Local Choice program provides many value-added benefits. Self-insured plans offered through the program provide financial protection, stable premiums and low administrative costs because of the program's ability to spread administrative costs and major catastrophic claims throughout the entire program.

In the process, there is less of a financial hardship on any specific member group for large catastrophic claims, and the program negotiates from a position of strength since administrative costs are based not only on the total number of participating groups but also combined with the Commonwealth of Virginia's employee health benefits program. In addition, profit margins usually associated with private health care coverage are eliminated. A closer look at the advantages of The Local Choice shows:

- *Administrative costs* are determined by the total number of groups participating in The Local Choice program combined with the COVA program. This achieves lower administrative expenses through substantial purchasing power. Significant discounts are also obtained through the program's provider network contracts.

- *Financial protection through shared claims experience* is possible since all groups, regardless of size, share the advantage of mental health, prescription drug, and dental cost pooling over the entire Local Choice membership. The result is a powerful stabilizing effect on premiums.



- *Minimum performance standards must be met* by all health plans offered under The Local Choice. If these standards are not met, the plans face strong monetary penalties. Our carriers are held accountable for claims payment accuracy, processing time, and other measures of performance.

- *Member groups save the time and expense of separately procuring health coverage* because The Local Choice is procured under and complies with the Virginia Procurement Act.

- *Employee Assistance Program services are available* at no cost to members by all health plan carriers participating in The Local Choice. Confidential assessments, counseling, consultation and referral programs that address personal and work-related issues are provided. Up to four sessions are included in all health plans at no cost for mental health services, alcohol or drug abuse assessment, child or elder care, grief counseling, legal, financial and other services.

- *The CommonHealth wellness program has wide appeal to member groups*, with 41% of total TLC enrollment participating in prevention and wellness activities. More than 2,600 individuals from 75 groups took part in health assessments or medical screenings during fiscal 2002. Health education topics for the year included fitness, medication management and cancer prevention. There were 96 new enrollees in the Baby Benefits program. Through the added value of CommonHealth, overall claims costs are reduced and the plan achieves significant savings. All TLC members are eligible to participate in CommonHealth.



- *Anthem's Better Prepared program* is designed to help individuals better understand and manage four important medical conditions: asthma, congestive heart failure, coronary artery disease and diabetes. This voluntary, confidential program is available at no charge to all Anthem plan members under The Local Choice. To register, members may call 1-800-445-7922. Enrolled members receive 24-hour access to registered nurses who can answer health questions, provide information about the most current treatment options and work with the member's physician to coordinate a plan of care. The goal of the program is to help members better manage their health condition for improved quality of life.

For more information about The Local Choice program,  
visit us at [www.thelocalchoice.state.va.us](http://www.thelocalchoice.state.va.us).  
Email: [tlc@dhrm.state.va.us](mailto:tlc@dhrm.state.va.us)

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